

U.S. Senate Committee on Foreign Relations
Senator Richard G. Lugar
Opening Statement for Hearing on
Oil, Oligarchs and Opportunity: Energy from Central Asia to Europe
June 12, 2008

Increasingly, access to energy is at the heart of security concerns for nations around the world, including the United States. The Foreign Relations Committee has undertaken a series of hearings on energy security since 2005. Among other conclusions, these hearings have pointed to an urgent need for developing alternative energy sources, expanding the attention given to energy issues in our diplomacy, and improving alliance cohesion on energy matters.

In 2006, at the NATO summit in Riga, Latvia, I asserted that the Western Alliance must commit itself to preparing a range of options for jointly deterring the use of energy as a weapon and responding if such an event occurs. I argued that it would be irresponsible for the European Union and NATO to decline involvement in energy security, when it is apparent that the jobs, health, and security of our modern economies and societies depend on the sufficiency and timely availability of diverse energy resources. I noted that energy may seem to be a less lethal weapon than military force, but a sustained natural gas shutdown to a European country in the middle of winter could cause death and economic loss on the scale of a military attack. Moreover, in such circumstances, nations would become desperate, increasing the chances of armed conflict and terrorism.

Unfortunately, since Riga, the trend has moved away from European unity on energy supplies. Recently, Russia has concluded energy supply agreements with Greece, Bulgaria, Hungary, and Serbia. The Kremlin has an agreement with Germany to construct the Nord Stream pipeline and with Italy's ENI to construct the South Stream pipeline. The current go-it-alone approach by many European nations will result in increased European dependence on Gazprom, greater vulnerability to supply disruptions, and less alliance cohesion on critical foreign policy issues.

Meanwhile, the oil and gas rich nations of Central Asia are relying almost exclusively on Russia to transport their energy exports. Undoubtedly, these countries have an interest in maintaining productive trade relations with their large northern neighbor. But Central Asian nations need only look across the Caspian Sea to Azerbaijan to gain a sense of the potential benefits of maintaining a second option for oil and gas exports.

Gazprom's monopoly-seeking activities cannot be explained by economic motives alone. It is difficult to distinguish where the Russian Government ends and where Gazprom begins. Clearly Gazprom has sacrificed profits and needed domestic infrastructure investments to achieve Russian foreign policy goals. The Kremlin and Gazprom have shut off energy supplies to six different countries during the last several years.

The trans-Atlantic community must do more to establish a credible energy security strategy that diversifies energy sources for all of Europe, establishes a collective framework to work with Russia, and refuses to tolerate the use of energy as an instrument of coercion. A first priority should be completing the so-called East-West energy corridor to bring oil and natural gas across the Caspian from Central Asia to distribution points in Central Europe. This will help diversify

gas supplies to Europe, thus increasing its collective bargaining position. Success requires leadership in three key areas.

First, the United States government must bolster its diplomatic engagement with Central Asian nations. When I visited leaders in Kazakhstan and Turkmenistan earlier this year, they told me that they want more dialogue with the West. The willingness of these governments to discuss trans-Caspian alternatives will not be converted into investments on the ground without high-level engagement. Former President Putin's personal diplomacy has been critical to Russia's success. It is time for a U.S. President to visit Central Asia. Likewise, I encourage President Bush to invite the President of Turkmenistan for his first visit to Washington.

Second, we cannot take for granted the progress made in Azerbaijan and Georgia. To ensure maximum benefit from the Baku-Tbilisi-Ceyhan and South Caucasus pipelines, the trans-Atlantic community must continue to support the democratic transformations in the Caucasus. An unfortunate result of the recent failure to grant Georgia a NATO Membership Action Plan is the appearance that Russian intimidation can affect the alliance's approach to Caspian security.

Third, numerous NATO and EU member states have pursued agreement on the critical Nabucco natural gas pipeline -- intended to be the final link connecting Caspian energy resources with European consumers -- but it is being challenged by the Russian-backed South Stream pipeline proposal that would cross the Black Sea. Reluctant European governments must be convinced that their long-term security interests are served by the Nabucco pipeline.

Chairman Biden and I have urged the Administration to appoint a special energy envoy to help address these issues. Ambassador C. Boyden Gray's appointment lends significant weight to this initiative by virtue of his close relationship with President Bush. United States backing for the BTC and SCP pipelines has been a strategic initiative embraced by multiple Administrations and undergirded by bipartisan support. The Bush Administration must make substantial progress on these projects during its last seven months, and the next Administration must hit the ground running on this issue.

I thank the Chairman for this hearing and join him in welcoming our distinguished witnesses.

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